

**PUBLIC PROCUREMENT PROCEDURES AND SUPPLY CHAIN PERFORMANCE
IN STATE CORPORATIONS IN KENYA**

BY

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DECLARATION

This research project is my original work and has not been presented for any academic award in any other University.

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This research project has been presented for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this project to my beloved wife Milka Rop, Daughter Lynnette Jerotich, Son Johnny Kibet Rop and Daughter Heilley Jepkosgei Rop and my friend Robert. I also dedicate this work to my colleagues at work and classmates.

ACKNOWLEDGEMENT

I thank the almighty God for the gift of life and strength given to me for the development of this project. I appreciate the effort made by my Supervisor during the project development stage. I also appreciate the effort of my family, classmates and friends for both emotional and economic stability.

TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION.....	iii
ACKNOWLEDGEMENT.....	iv
LIST OF TABLES	viii
ABSTRACT	ix
CHAPTER ONE: INTRODUCTION	1
1.1 Background Information	1
1.1.1 Benefits of Public Procurement Procedures	2
1.1.2 Public Procurement Procedure Strategies	3
1.1.3 Challenges of Procurement Procedures	4
1.1.4 Supply Chain Performance	5
1.1.5 State Corporations.....	6
1.2 Research Problem	7
1.3 Objectives of Study	8
1.4 Value of the Study.....	8
CHAPTER TWO: LITERATURE REVIEW.....	10
2.1 Introduction.....	10
2.2 Theoretical Review	10
2.3 Empirical Review.....	14
2.3.1 Definition of Public Procurement	14
2.3.2 Public Procurement	15
2.3.3 Extent of Compliance with Procurement Procedure.....	17
2.3.4 Challenges of Compliance with Public Procurement Procedures.....	17
2.3.5 Effect of Compliance with Public Procurement Procedures.....	19
2.4 The legal and Regulatory Framework of Public procurement.....	20

LEGAL FRAMEWORK	22
2.5 Summary of Literature Review.....	23
2.6 Conceptual Framework.....	24
CHAPTER THREE: RESEARCH METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design.....	25
3.3 Target Population.....	25
3.4 Sampling	25
3.5 Data Collection	26
3.6 Data Analysis.....	26
CHAPTER FOUR	27
DATA ANALYSIS, PRESENTATION AND INTERPRETATION	27
4.1 Introduction.....	27
4.2 Demographic Data	27
4.2.1 Gender of the Respondents	27
4.2.3 Age of the Respondents	28
4.2.4 Education Level of the Respondents.....	28
4.2.5 Years of the Parastatal Existence	28
4.2.6 Respondents Years in Parastatal	29
4.3 Extent of Compliance to Procurement Procedure.....	29
4.5 Effects of Public Procurement Procedures on Supply Chain Performance	32
4.10 Discussion of the Findings.....	33
4.10.1 Extent of Compliance with Public Procurement Procedures	33
4.10.2 Challenges of Compliance with the Public Procurement Procedures.....	34
4.10.3 Effects of Compliance to Public Procurement.....	35
CHAPTER FIVE	35
DISCUSSION, CONCLUSION AND RECOMMENDATION	35
5.1 Introduction.....	35

5.2 Summary of the Study Findings	36
5.3 Conclusion	37
5.4 Recommendation	38
5.6 Recommendations for Further Research.....	39
REFERENCES.....	40
APPENDICES	Error! Bookmark not defined.
Appendix 1: Questionnaire	43

LIST OF TABLES

Table 4.2.1 Gender.....	27
Table 4.2.2 Age.....	28
Table 4.2.3 Education Level	28
Table 4.2.4 Parastatal Existence	29
Table 4.2.5 Years in Parastatal	29
Table 4.3.1 Compliance to Procurement Procedure	30
Table 4.5.1 Effects of Public procurement on Supply Chain Performance	33

ABSTRACT

The study focused on public procurement procedures and supply chain performance on state corporations in Kenya. The objectives of this study was to determine the extent of compliance with public procurement procedures in Kenya by state corporations, to establish the challenges of compliance with the public procurement procedures in state corporations in Kenya and to determine the effect of compliance with public procurement on supply chain performance. Descriptive research design was adopted. A sample size of 56 was used. Primary data was collected from Procurement Officers using questionnaires. Data analysis was done using measures of dispersion and measures of central tendency and findings were presented in form of tables. The findings were that the extent of compliance with public procurement procedures, key challenges of compliance with public procurement that came out included the prices of public procurement of works and services are too high and which in effect had a significance influence on the supply chain performance. It was concluded that the following will improve the performance of supply chain: Improving the challenges facing the enforcement of public procurement regulations in parastatals. Enhance transparency and accountability. Improve the challenges facing e-procurement in the parastatals. The study recommends that parastatals should train tendering committee members, suppliers bidders on the proper procurement procedures and practices so as to create consistency and to reduce cost he further recommends further research to be undertaken on the following areas: effects of compliance with public procurement, challenges of compliance with public procurement and extent of compliance with public procurement procedures in Kenya since the study findings on each and every research question indicate just a mere extent of agreement to public procurement procedural rules and supply chain performance of state corporations in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background Information

Public procurement has its origins in the fiduciary obligation of government administration to deliver goods and infrastructure, for example roads and harbours and services, for example health care and education to the population of a country or a specific geographic region, city or town (Odhiambo,2003). Public procurement refers to the government activity of purchasing the goods and services needed to perform its functions (Arrowsmith, 2010). According to Odhiambo and Kamau (2003), public procurement is broadly defined as the purchasing, hiring or obtaining by any contractual means, goods, construction works and services by the public sector. It involves the purchase of commodities and contracting of construction works and services if such acquisition is effected with resources from state budgets, local authority budgets, state foundation funds, domestic loans or foreign loans guaranteed by the state, foreign aid and revenue received from the economic activity of state. According to Hommen and Rolfstam (2009), public procurement is the acquisition (through buying or purchasing) of goods and services by government or public organizations. Arrowsmith (2010) contends that the concept of public procurement can be referred to as procurement planning, contract placement and contract administration.

Public procurement is also defined as the processes where by public sector organisations acquire goods, services and works from third parties. It includes much that supports the work of government and ranges from Routine items (e.g. stationery, temporary office staff, furniture or printed forms), to complex spend Areas (e.g. construction, Private Finance Initiative projects, aircraft carriers or support to major change initiatives).It also includes a growing spend where the private and third sectors provide key services directly to citizens in areas such as welfare-to-work, further education, social care and health (Bolton, 2006). Such services may also be provided by the public sector directly, and in some cases even this public provision can be handled through procurement mechanisms. A public body may bid for government work against private sector firms through a formal competitive process (Anderson, 2001).

Public procurement is concerned with how public sector organizations spend taxpayers' money on goods and services (Hall, 2009). Globally, in many developed nations, government organizations across the world tend to spend between 8 per cent and 25 per cent of GDP on

goods and services (Organization for Economic Co-operation and Development, 2006); in the UK, public procurement expenditure is approximately £150 billion (Department of Environment, Food, and Rural Affairs, 2007). In Africa, public procurement procedures are poorly executed and this negatively affects realization of increased economic development in the region. In Nigeria for instance, high level of corruption and bureaucratic procedures in the government are some of the key challenges responsible for lack of development of road network infrastructure in the northern parts of the country (Edward, 2009).

Public procurement varies between 5% and 8% of the gross domestic product (GDP) in most industrialised countries (OECD, 2007). In the Middle East and Africa, central government purchases range from 9% to 13% (Gul, 2010). This indicates that public procurement plays a vital role in a country (Odhiambo, 2003). Public procurement has important economic and political implications, and ensuring that the process is economical and efficient is crucial. This requires in part that the whole procurement process should be well understood by the actors: government, the procuring entities and the business community/suppliers and other stakeholders, including professional associations, academic entities and the general public (Odhiambo, 2003).

In developing countries like Kenya, the public procurement sector is often the largest domestic market. The government has the obligation of providing goods, works and services to meet a variety of citizen needs. The necessity for public procurement law and also clearly defined procurement systems arises from the fact that, unlike the private sector, public procurement is a business within a national and political system, whose pillars of strengths (Alchian, 1972).

1.1.1 Benefits of Public Procurement Procedures

Public procurement is increasingly recognised as a profession that plays a key role in the successful management of public resources, and a number of countries have become increasingly aware of the significance of procurement as an area vulnerable to mismanagement and corruption and have thus made an effort to integrate procurement into a more strategic view of government efforts. As part of the efforts to adopt a long term and strategic view of their procurement needs and management, most countries have resorted to using their annual procurement plans as a possible problem solver (Mahmood, 2010).

Besides the fiduciary obligation to deliver goods and services to the constituents of the particular government administration, public procurement addresses a wide range of objectives (Uyarra, 2009). It has been used by governments to achieve socio-economic objectives such as stimulating economic activity; protecting national industries from foreign competition; improving the competitiveness of certain industrial sectors; and remedying national disparities (Bolton, 2006). The objectives of public procurement are achieved through various means, and legal and regulatory rules on conducting public procurement (Arrowsmith, 2010).

Effective public procurement is essential for good public services and good government. The public sector in the UK spends well over £150 billion a year on the goods and services necessary to deliver public services (Coase, 2007). Government must apply the highest professional standards when it spends this money on behalf of taxpayers, to ensure it gets a good deal and to provide appropriate and necessary goods and services to the quality required to meet user needs. The procurement process spans a life cycle from identification of the need, through the selection of suppliers, to post-contract award management, including disposal (Bolton, 2006).

There is a duty on procurers in central government to apply the key principles of public procurement. These require the delivery of value for money (VFM), appropriate quality and service to meet business needs, and appropriate governance (i.e. adherence to HM Treasury rules concerning the use of public money in procurement) as described in *Managing Public Money* (Alchian, 1972). Public sector procurement is governed by the UK regulations that implement the EU procurement directives. These apply to the majority of procurements with a total value over a specified threshold. Procurements which are below threshold are not covered by the UK regulations, but are still subject to EU Treaty principles. This is described in more detail in the Policy and Standards Framework. Contracting authorities need to deploy strong personal and organisational commercial leadership, and, in most cases, procurement activities need to be led by professionally trained staff (Anderson, 2001).

1.1.2 Public Procurement Procedure Strategies

The procurement approach and procedure must be relevant and appropriate for what is being purchased, and the market must be able to provide it at an affordable price. According to Cane (2004), contracting authorities are required to promote sustainable development

objectives through procurement in a way that is consistent with value for money and the legal framework for public procurement (Wanyama, 2010). Procurement strategy contains options analysis and recommendations around a range of issues depending on the precise nature of the procurement (Fawcett, 2007). Typically, for a complex procurement, it would include discussion of the contracting process itself; the number and nature of the supplies required; the length and type of contract; contract and supplier management issues. Considerations are also given as to whether an existing contract could be available for wider use (Eyaa, 2011). Other strategic issues can include whether and how to use Prime Contracting, whereby a lead supplier manages sub-contractors as part of the delivery chain (Funer, 2004). This has advantages of clear contract ownership, but requires a Prime Contractor capable of doing this effectively; otherwise the authority can become involved in difficult arguments in the supply chain. Long-term operational service contracts require strategies for handling the inevitable changes through the life of the contract, so should incorporate effective change control processes, and will usually require supplier performance incentivisation mechanisms (Larson, 2009).

1.1.3 Challenges of Procurement Procedures

Public procurement operates in an environment of increasingly intense scrutiny driven by technology, programme reviews, and public and political expectations for service improvements (Bolton, 2006). Prior to 1994, public procurement is geared towards large and established contractors. It is difficult for new contractors to participate in government procurement procedures. However, public procurement has been granted constitutional status and is recognised as a means of addressing past discriminatory policies and practices (Bolton, 2006). Reforms in public procurement are initiated to promote the principles of good governance, and the National Treasury usually introduces a preference system to address socioeconomic objectives.

Maskin, (2004) asserts that a uniform implementation approach to procurement is required. The deficiencies and fragmentations in governance, interpretation and implementation of the Preferential Procurement Policy Framework Act (PPPFA) Act No 5 of 2000, resulted in the introduction of supply chain management (SCM) in the public sector as a policy tool (National Treasury, 2005: 8). In 2003, a SCM document entitled 'Supply Chain Management: A guide for accounting officers/authorities' was developed to guide the adoption of the integrated SCM function and its related managerial responsibilities. This was government's

attempt to achieve the desired strategic policy outcomes through public procurement (McCrudden, 2004). Government and private sector procurement suffers from fraud and similar issues; not often, but it does happen. Suppliers have been known to operate cartels (to restrict competition or drive up prices), and some suppliers and staff have, on occasion, committed fraud. That may include; falsifying invoices; business awarded unfairly in return for bribes or suppliers inflating prices in collusion with staff and/or competitors.

1.1.4 Supply Chain Performance

Performance Management depicts the final element in the SCM cycle but should not be seen in isolation as the monitoring processes often occur concurrently with all the other elements in the SCM cycle. The process consists of a retrospective analysis to determine whether the proper process was followed and whether the desired outcomes were achieved (Williamson, 1999).

An effective SCM Performance Management System should be developed and implemented in accordance with departmental policies and procedures and applicable legislative requirements. When it comes to supply chains, most managers aspire to achieve too many objectives simultaneously without accounting for inherent trade-offs. For example, the goal of reducing supply costs may have a negative impact on desired product quality, lead time or the proximity of the supply base (Maskin, 2004). Unless organizations do a good job of aligning these cross -departmental goals and ensuring that operational KPIs map to the enterprise's strategic KPIs, they will continue to measure and reward against conflicting metrics, resulting in inefficiencies and counter-productive decisions, including those that lead to recalls (Salbu, 2000).

Several types of indicators have been developed to measure many supply chain and logistics activities. Choosing the type of indicator to measure can be daunting, and it could be dangerous to simply focus attention on one area. For example, focusing only on cost containment could improve one area but not affect the overall performance of the supply chain (Arrowsmith, 1998). For this reason, a model by Frazelle (2001) that is more holistic and consists of four types of indicators is adopted: quality, time, financial, and productivity. To complete the analysis, all indicator types need to be considered, and they need to work together. Quality: These indicators are often the simplest to implement and measure. Typically, they tell you how well you are performing a specific activity a common logistics

indicator in this classification is accuracy including order accuracy, inventory accuracy, picking accuracy, etc. Time: These indicators focus on the time it takes to complete specific activities. They show where saving time during specific activities can improve the overall supply chain performance. Financial: These indicators help managers identify the supply chain cost drivers and help move toward a more efficiently managed supply chain. Productivity: These indicators examine how well resources are used. For example, filling vehicles to their capacity, instead of sending out vehicles half-full, could reduce costs and improve efficiency. As stated earlier, focusing on only one type of indicator may actually have a negative impact on product availability. For instance, a decision to send vehicles on a distribution run only when they are filled to capacity could cause stock outs at the next level down unless inventory policies are adjusted to compensate for reducing ad hoc shipments. It is very important to view these indicators holistically to make sure they are harmonized and not working against each other and to identify the trade-offs required to strategically improve overall supply chain performance (Coase, 2007).

Supply chain performance is been a major component of competitive strategy to enhance state corporation productivity and profitability. The role of these measures and metrics in the success of an organization cannot be overstated because they affect strategic, tactical and operational planning and control.

1.1.5 State Corporations

State Corporation is a legal entity created by the government to undertake commercial activities on its behalf. In Kenya there are two hundred and ten state corporations which fall under established ministries in which they work collaboratively to achieve the overall goals of the respective ministries. The volume of public procurement was established at 3.64 billion USD which was approximately 9% of the GDP (Independent Procurement Review Kenya, May 2005). Procurement in the state corporations is governed by the Public Procurement and Disposal Act 2005 and the Public Procurement and Disposal Regulations 2006 which facilitates the standardization of procurement practices across all procuring entities in Kenya (Public Procurement and Disposal General Manual, 2009).

The Public Procurement Oversight Authority (PPOA) is charged with the responsibility of oversight and regulation of public procurement. According to Erridge and Greer(2002), pursuit of regulatory goals is directed towards ensuring that procurement activities and

contracts meet the requirements of propriety and transparency thus encouraging a risk avoidance culture in respect of transparency. Procurement in Kenya's State corporations has been dogged by; corruption, political patronage, procurement system inefficiency, lack of sound procurement policy guidelines and lack of a genuinely open and competitive system of procurement amongst other shortcomings.

State corporations legal status varies from being a part of government to stock companies with a state as a regular stockholder. State corporations have a distinct legal form and they are established to operate in commercial affairs. While they may also have public policy objectives, GOCs (Government Owned Corporations) should be differentiated from other forms of government agencies or state entities established to pursue purely non-financial objectives.

Government-owned corporations are common with natural monopolies and infrastructure such as railways and telecommunications, strategic goods and services (mail, weapons), natural resources and energy, politically sensitive business, broadcasting, demerit goods (alcohol) and merit goods (healthcare).

1.2 Research Problem

The aim of the Public Procurement Regulations of 2006 was to promote fairness, transparency and nondiscrimination in procurement in public institutions with the main aim of ensuring efficient use of public funds. However, studies reveal that even after the enactment of the Regulations, there are losses of public funds that can be attributed to public procurement(Wanyama, 2010).

Schotanus et al., (2011) in their study found out that many public entities are increasingly encouraged to pool or share purchasing volumes, information, and/ or resources. However, while there is a policy imperative for procurement procedures, public entities often experience difficulties in forging and sustaining inter-entities relationships in the form of purchasing. While they appreciate the presence of barriers to procurement public procurement collaborative, they fail to establish the extent of compliance, challenges of compliance and effect of compliance with public procurement procedures. Further, studies indicate dissatisfaction among stakeholders brought about by loopholes left by the Regulations which may be used by dishonest people to make the process inefficient (Kenyanya, 2011).

Compliance levels continue to be low in public entities in Kenya despite efforts by the Public Procurement Oversight Authority (PPOA) to put in place measures to improve compliance (PPOA 2007). Procurement audits carried out revealed non compliance with procurement regulations in state corporations in Kenya. It has been noted that state corporations tendering committees distort the regulations to restrict the participation of interested suppliers in procurement, or still direct the outcome of others (District Audit report 2010-2011). But what has transpired since that time is that subsidiary legislation and amendment of the law have been enacted so that things must have changed hence the finding may no longer hold.

Past studies have unraveled the impact of sound public procurement policy. However most of them have not exhaustively investigated the public procurement procedures and supply chain performance in Kenyan state corporations. It is against this backdrop that this study set to establish the public procurement procedure and supply chain performance in state corporations in Kenya.

This study therefore sought to answer the following research questions; what is the extent of compliance with public procurement procedures in Kenyan state corporations? What are the challenges of compliance with the public procurement procedures in Kenyan state corporations? What is the effect of compliance with the public procurement procedures on supply chain performance?

1.3 Objectives of Study

The specific objectives of the study were:

- i. To establish the extent of compliance with Public Procurement Procedures by state corporations in Kenya.
- ii. To establish the challenges of compliance with the Public Procurement Procedures in state corporations in Kenya.
- iii. To determine the effect of compliance with Public Procurement Procedures on supply chain performance of state corporation in Kenya.

1.4 Value of the Study

The findings of this study will be useful to state corporations in Kenya, in strengthening the acquisition, implementation and integration of procurement practices in administration. The study findings will also inform government policy with regard to designing change to

streamline the acquisition of goods and services in state corporations as set by the public procurement act of 2007.

The study will be of importance to policy makers and stakeholders in the public procurement supply chain in Kenya. The study will be a key ingredient in the; planning, designing and implementation of a sound public procurement system that will align itself to the overall economic strategy.

The study addressed the effect of compliance to procurement procedures and extent of compliance, in this context it will equally benefit private enterprises that are interested in building sound procurement practices. The study will fill the existing literature gap on the public procurement procedures and supply chain performance in Kenyan corporations thus the findings of this study will be beneficial to future researchers as it formed a basis on which academic researchers can do further study on compliance with public procurement procedures.

The study may help the public procurement oversight authority (PPOA) to have new or in developing policies and in the procurement legislation in the country and their effect on the state corporations operations would help the corporations develop appropriate procurement policies in the face of changing needs. In addition the study may be a valuable source of material and information for KISM (Kenya Institute of Supply Management) and also it will provide information on how good procurement strategies can be developed and how any resultant challenges can be mitigated and develop appropriate policies that may guide and encourage other organizations within and without the public sector in implementing their strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, the public procurement procedures were discussed in depth and different literatures reviewed. The research allowed for location of literature from a variety of sources. The sources of literatures were texts, books, magazines, journals, previous research works and observations related to the procurement procedures and supply chain performance of state corporations in Kenya. This helped to clarify, strengthen and direct each stage of the research from the formulation of the research topic to the dissemination and utilization of research findings accordingly.

2.2 Theoretical Review

A theory is a set of statements or principles devised to explain a group of facts or phenomena especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena. Theories are analytical tools for understanding, explaining, and making predictions about a given subject matter. A formal theory is syntactic in nature and is only meaningful when given a semantic component by applying it to some content (i.e. facts and relationships of the actual historical world as it is unfolding (Zima, 2007). This study will be based on Agency Theory, Dialectical Theory and theory of innovation.

2.2.1 Agency Theory

A theory in this area of procurement can help all stakeholders in public procurement better understand the role they play in providing incentives for utilizing cooperatives in purchasing decisions. This research project will be based on Jensen's and Meckling's (2006), Agency theory that states that, an agency relationship is a contract under which one or more persons (principals) engages another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. When executing the tasks within the principal-agent relationship, the agent must choose actions that have consequences for both the principal and the agent. Since these outcomes can be either negative or positive for each of the actors, the chosen action of the agent affects the welfare of both. The principal-agent relationship is often forged because the agent possesses a greater abundance of the needed skills, abilities, and/or time to perform the desired activities (Cane, 2004).

Inevitably, however, there are several problems for the principal in governing the relationship with the agent, the first of which involves choosing an appropriate agent. Consistent with the tenets of agency theory, the view adopted here assumes that agents, purchasing officials, are rational, self-interested utility maximizers (Alchian, 1972). However, it is not assumed that these agents behave selfishly and do so with guile. In other words, slightly contrary to transaction cost economics framework, although it is assumed that people are opportunistic in the sense that they may shirk in a self-interested manner by trying to minimize effort if it fulfils their needs, it is not assumed that they will willingly misrepresent or lie about that effort (Arrowsmith S,2010). More to the point, it is merely assumed that the principal and agent do not share the same levels of information, and as such, the agent can opportunistically take advantage of the situation, sometimes to the detriment of the principal. This latter situation is known as moral hazard and is often the result of asymmetric information (Fama, 2003).

The theory further suggests that whether or not these entities are of the same government (e.g., agencies within the same government) or represent different governments, the cycle leaves open the potential that government entities may or may not have similar goals. Consequently, the agency relationships modelled here suggest that governments, if not outright competitive, could be at cross-purposes so that there may be times when cooperative public purchasing is not mutually advantageous (Kimalu, 2002). An example is when the U.S. General Services Administration (GSA) will restrict the availability of goods and services from the supply schedule if, when left open to be used by other entities, the use of the schedule results in lower supply or higher prices for the U.S. government. In other words, if the federal government is adversely affected by other entities procuring material through its supply schedule, the available supply schedule will be shrunk by the federal government to capture the savings under the schedule. In summary, any purchasing decision, the multiple layers of principals and agents make organizational responsiveness and maintaining transparency difficult (Jensen, 2006).

2.2.2 Dialectical theory

Dialectical theory begins with the Hegelian assumption that the organizational entity exists in a pluralistic world of colliding events, forces, or contradictory values that compete with each other for domination and control. These oppositions may be internal to an organizational entity which may have several conflicting goals or interest groups competing for priority. But

oppositions may also be external to the organizational entity. Anderson(2001), uses dialectical theory to explain change in organizations as occurring when the opposing values, forces or events gain sufficient power to confront and engage the status quo. These opposing forces are termed thesis and antithesis, thesis being the status quo or the ruling way of “doing things”. In such situation a new “synthesis” is developed which at a later stage becomes the status quo and again may be confronted by an opposing force.

It must be added that the new situation or “way of doing things”, the synthesis is not necessarily progress to a better state. Using dialectics as research lens in this research will imply identifying challenges and dilemmas in terms of dialectical contradictions or theses and anti-theses, and through data collection also identifying possible syntheses or solutions. These may be in the form of work around, e.g. by specifying requirements which favour other goals than just costs. As previously shown, findings from two case studies of procurement in local government identify different tensions in the procurement process (Loeb, 2009). However dialectics serves a limited role as analytical lens in identifying conflicts. To understand why these conflicts arise and how different persons or subgroups involved influence the process, other theoretical lenses are needed, and agency theory and stakeholder management theory ties well in with dialectics.

2.2.3 Theory of Innovation

This theoretical stand reflects innovation-theory basics from the heterodox and evolutionary standpoints as it takes into account the following key categories: relationship between technology development stage (basic research, feasibility studies, prototype development, diffusion, maturity) and associated risks and government market positions (monopsony, oligopoly, polyphony) in terms of innovation-oriented public-procurement potential (Fama, 2003).The highest potential to spur innovation is reached when a government has a monopolistic position and targets a technology early in its life-cycle. Historically, to summarize, the explicit public procurement policies aiming at fostering and nurturing innovation are to be found mainly in public procurement of technology and R&D, and not in “procurement of innovation” as such.

However, all of the technology-related arguments follow what can be called a narrow innovation-system approach: either innovation-oriented public-procurement measures focus on R&D and its counterpart in science and technology or on few sectors (i.e. the focus is on

public procurement for innovation). What tends to be left out of such arguments are the issues concerning innovation-oriented public procurement in the context of matured technologies and sectors as well as of learning and knowledge production beyond the development of new products, (Coase, 2007). After all, traditional government suppliers usually come from matured markets. Also, one needs to take into account the peculiarities and rationales of different administrative and policy fields. Most of the past public-procurement policy initiatives supporting innovation have been motivated not necessarily by the need to redress systemic failures of innovation systems, but to meet social challenges (e.g. military, energy consumption, environmental protection, ageing societies etc.) or to improve public services. Therefore, there is a need to understand how different sector-specific logic can be coordinated under the innovation policy aims (Lewis, 1999).

2.2.4 Stakeholder Management Theory

Stakeholders management theory state that as interest in stakeholder concepts has increases, so too has the number of views on the subject (Friedman and Miles 2002). Jones, (1995) argues that stakeholder theory can be divided into three main approaches: descriptive approaches, which depict “what happens”, instrumental approaches which outline “what happens if”, and normative approaches which suggest “what should happen”. Unfortunately, fruitful discussions of various notions of stakeholder theory have at times been eclipsed by fervent, and sometimes personal, exchanges from proponents of the various views.

Construction management, as a field of research, has tended to focus on planning and managing the complex array of activities required to deliver a construction project, such as a road or building (Morris 1994). Being able to manage construction stakeholders expectations and concerns is a crucial skill for managers of construction projects (Vinten 2000), as failure to address these has resulted in countless project failures (Bourne and Walker 2005), primarily because construction stakeholders tend to have the resources and capability to stop construction projects (Lim et al. 2005). Successful completion of construction projects is therefore dependant on meeting the expectation of stakeholders (Cleland 1995). Stakeholders, include clients, project managers, designers, subcontractors, suppliers, funding bodies, users, owners, employees and local communities (Newcombe 2003,). As a consequence a robust construction management literature has developed on how to identify and manage stakeholder interests and relationships.

2.3 Empirical Review

This section will deal with studies that have been done by others in the area of public procurement rules. The empirical shall look at the main objectives which shall cover the independent variables of the study which are prequalification procedures, prequalification document, approval of pre-qualified candidates, limitation of contracts with employees, preference and limitation, tender documents, variation to contracts and contract termination. It shall highlight what other researchers have established in those key areas.

2.3.1 Definition of Public Procurement

Public procurement is defined as the process of the acquisition, usually by means of a contractual arrangement after public competition, of goods, services, works and other supplies by the public service. The process spans the whole life cycle from initial conception and definition of the needs of the public service through to the end of useful life of an asset. Public procurement can alternatively be defined as the purchase of commodities and contracting of services if such acquisition is effected with resources from state budgets, local authority budgets, states foundation funds, domestic loans or foreign loans guaranteed by the state. Public procurement thus means procurement by the procuring entity using public fund (OECD, 2001).

The items involved in public procurement ranges from simple items or services such as clips or cleaning services to large commercial projects such as the development of infrastructure including roads, power stations and airports. It can also be the acquisition, whether under formal contract or not of works, supplies and services by public bodies. Procurement can equally mean the process of acquisition of goods and services (i.e. purchasing) and hiring contractors and consultants to carry out works and services. This includes rental, lease, hire purchase, license, tenancy, franchise or any other contractual acquisition of works, services and supplies. Procurement also embraces clearing out unnecessary acquisitions. In essence, the subject of procurement runs at all times alongside that of disposal of public assets which once acquired may need to be discarded in accordance with the principles of their purchase.

According to Westring (1985), the scope covers Specification of the kind and quality of goods or service to be acquired or disposed, Investigation of the market for supply and contacts with potential suppliers or buyers, Placing the order or contract, including

negotiation of terms, Supervising delivery and performance, and taking necessary action in the event of inadequate performance, Payment and Dealing with any disputes.

2.3.2 Public Procurement

The Public Procurement System in Kenya has evolved from a crude system with no regulations to an orderly legally regulated procurement system. The Government's Procurement system was originally contained in the Supplies Manual of 1978, which was supplemented by circulars that were issued from time to time by the Treasury. The Director of Government Supply Services was responsible for ensuring the proper observance of the provisions of the Manual. The Manual created various tender boards for adjudication of tenders and their awards. Consequently the establishment of the Exchequer and Audit (Public Procurement) Regulations 2001 which created the Public Procurement Directorate (PPD) and the Public Procurement Complaints, Review and Appeals Board (PPCRAB).

The PPD and PPCRAB, though largely independent in carrying out their activities, had been operating as departments in the Ministry of Finance on which they relied for staff, facilities and funding. Since these institutional arrangements have a potential for undermining the impartiality of these bodies in the long run it was found necessary to create an oversight body whose existence was based on a law. The Public Procurement and Disposal Act, 2005 was thus enacted and it became operational on 1st January, 2007 with the gazettelement of the Public Procurement and Disposal Regulations, 2006.

The Public Procurement and Disposal Act, 2005 created the Public Procurement Oversight Authority (PPOA), the Public Procurement Advisory Board (PPAB) and the continuance of the Public Procurement Complaints, Review and Appeals Board as the Public Procurement Administrative Review Board (PPARB). The PPAB and PPARB are autonomous bodies.

The World Bank, (2003) estimated the annual value of public procurement for goods, works, and consultancy services at 600 million US dollars representing about 10% of the country's GDP. Therefore, public procurement is an integral function of governments in both developed and developing countries as the gigantic financial outflows has a great impact on their economies that needs prudent management (Thai, 2001). Thus, the prudent handling of public procurement functions is fundamental to achieving economic, socio-political and other objectives of government.

Due to the essential role of public procurement in economic and social development, the World Bank specifies four thematic areas of public procurement for its funded projects. That is, ensuring that there is fair competition among bidders, promoting transparency in awarding and execution of its contracts and finally, encouraging the development of indigenous contractors and suppliers (Thai, 2001; Tucker, 1998).

Furthermore, Schapper, VeigaMalta and Gilbert, (2006) posited that technology can be used to enhance transparency. Other studies (Shadrach and Ekeanyanwu 2003) also agreed on the assertion by Schapper, et al, (2006). They indicated that electronic commerce (e-commerce) can be used to enhance transparency in the procurement process through effective audit and monitoring of low value transactions. According to them, for high value and very complex procurement procedures, key features of transparency involves publicly available information on procurement policies; information dissemination on bidding programmes; standardized documentation, and bid lodgment; progressive evaluation of tender documents and declaration of tender results.

The Public Procurement Reform in Kenya was jointly initiated in 1997 by the Kenya Government and the World Bank. The procurement audits carried out on Kenya's public procurement system disclosed serious shortcomings ranging from inefficiency to lack of sound and transparent legal framework. The government decided to review and reform the existing procurement system with a view to enhancing efficiency, economy, accountability and transparency in public procurement. The Public Procurement Reform undertaken by Kenya is home grown and has also borrowed good practices from the rest of the World.

To further streamline the legal framework and deepen the public procurement reforms, the Government drew and published Public Procurement and Disposal Bill, 2002, 2003, 2004 and 2005. The failure of the Government to enact this bill has been interpreted by development partners and other stakeholders as lack of commitment to good governance. Indeed, currently the enactment of the Bill is conditionality under the Economic Recovery Strategy Assistance. A technical committee comprising of staff from Ministry of Finance, World Bank, AG Chambers and Consultants have over the years reviewed the Bill. In addition, stakeholders' workshops and consultative-meetings have been held and their views and recommendations have been used to fine tune the Bill.

2.3.3 Extent of Compliance with Procurement Procedure

For decades procurement performance has been attracting great attention from practitioners, academicians and researchers due to poor performance resulting from non-adherence to proper processes and procedures. Performance provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, identifies areas of strengths and weaknesses and decides on future initiatives with the goal of how to initiate performance improvements.

Compliance as a concept compares the conduct of the regulators to the equivalent legal obligation that the regulators should comply with (Gelderman et al., 2006; Lange 1999). Therefore, compliance is considered by political and social regulators as a prescribed process of elimination or avoidance of risk that is normally associated with public procurement systems. Assessment of public procurement management performance is defined in terms of compliance with the set procurement rules (Schapper, Veiga Malta, & Gilbert, 2006).

The Public Procurement Disposal Act, 2005 specifies a number of rules, process, procedures and ethics for the whole procurement process. These rules aim to secure efficiency in the use of public funds to ensure non-discrimination, fairness, transparency and accountability in the procurement process.

2.3.4 Challenges of Compliance with Public Procurement Procedures

In a developed or developing country, public procurement practitioners have and will face always many challenges. Each country has its own economic, social, cultural and political environment, and each country's public procurement practitioners face different types of challenges, or the same types of challenges but at different levels from their counterparts in other countries. This chapter will present six common challenges, identify external factors that public procurement practitioners have to deal with, and finally provide a summary of chapters grouped under common themes.

The Contract Monitoring Kenya Network (CMKN) (2012) cited unethical practices as a major factor contributing towards inefficiencies in procurement in major public institutions in Kenya in return leading to squandering of public funds through fraud, favouritism and extravagance. This was revealed in a report by the CMKN dubbed Reforming public contracting: Giving Kenyans value for money that said there rampant unethical practices in public procurement (Loeb, 2009).

Maggi(2005), states that at the heart of grand corruption in Kenya is a series of financial arrangements that together make up a system of security-related procurement, procurement of commercial debt, and financing of the political system. There are unethical practices in the procurement of military hardware (Maggi, 2005). According to Alchian (1972), purchasers are the major spenders in the organization and are frequently tempted to accept gifts and prevailing double standards within the company.

In this sense, they sometimes succumb to unethical behaviour (Williamson, 1999). The purchasing environment thus creates an atmosphere conducive to unethical behaviour (Williamson, 1999). Purchasers are tempted by suppliers and this creates an atmosphere of dishonesty and, hence, it is unavoidable that purchasers are sometimes guilty of unethical behaviour (Williamson, 2004).

Coase (2007), states that the current Kenya procurement management is deficient of ethical inclination and should employ ethical consideration to re-invent itself. According to Lamber, (2008), the most persistent barrier to combating corruption is the culture of secrecy in public procurement and associated government functions. Unethical behaviour in public procurement, which includes conflict of interest and corruption, is an issue since may damage relations within the purchasing department, the relationship with other departments in the company, and with suppliers (Fama, 2003). Unethical practices in public procurement leads to loss of public resources and consequently contributes to suffering of the poor (Salbu, 2000). According to the Alchian(1972), unethical practices gnaw away Africa's resources and undermine development. It undercuts the long term interests of the poor (Maskin, 2004). Unethical procurement practices deprive citizens, as well as private entities, of the economic benefits of their taxes and natural resources (Williamson, 1999).

The public procurement unethical practices in Kenya are variously mentioned in cases such as Forensic Lab for CID Department, terrorist proof passport systems, Procurement of Hyundai police cars, Acquisition of patrol ships, universal sat space, Kenya Ports Authority importation of tug boats and cranes and maize importation. Such unethical practices lead to a drain in the public resources and hence the need for a heightened focuses (Joskow, 1991). According to Lamber(2008), although procurement unethical practices has attracted the attention of policy makers of both the developed and developing world, little progress has been achieved in addressing the problem.

2.3.5 Effect of Compliance with Public Procurement Procedures

The procurement exercise follows steps according to the PPDA of 2003. These steps must be observed in order to ensure that all the stakeholders involved in the procurement exercise obtain fair treatment. The steps include; planning for the required procurement over a given period, identifying the source of the items, highlighting specifications/initiation of procurement, determination of procurement procedure, Sourcing (soliciting) offers, evaluation of offers, post qualification, commencement of contract, contract performance (delivery) and management, record keeping and accountability, payment and post contract performance (PPDA, Act, 2003). Many corporate board members in Africa, especially of state-owned companies, have limited understanding of their roles, and are usually open to manipulation by management, chairmen, or principal shareholders. Some are outright incompetent. Non-executive directors in Africa need to play any meaningful role in the ensuring compliance. However many simply act as rubber stamps for decisions taken outside the board (Arrowsmith , 1998). In this perspective, compliance arises from a dynamic equilibrium between the various powers of the state and understanding what their roles are (Salbu, 2000).

According to De Boer and Telgen, (1998) as quoted by Gelderman et al., (2006), one of the factors causes of non –compliance with procurement regulations is the level of familiarity with the procurement regulations. De Boer and Telgen, (1998) assert that during the early days of the inception of public procurement regulations in The Netherlands, many municipalities could not comply to the regulations because they were not familiar with them. Gelderman et al., (2006) confirmed this position in a survey on compliance with EU procurement directives. Given that the procurement profession is still relatively new in Uganda, with the regulations having come into force in 2003, it is possible that the level of familiarity with the regulations is still low. On the other hand, it is possible that those who are familiar with the regulations know it so well that they know how to beat the loopholes to their advantage. It is worth noting that the ambiguity in the public procurement procedures may provide a chance for dubious acts including opaque tendering and discriminate supplier selection which may progress into poor compliance levels. Some theorists have noted that deficient familiarity of the procurement procedure by all the internal stakeholders may affect compliance.

According to Guy (2000), there are six dimensions through which we can judge the level of institutionalization of any structure and its ability to adapt to change, including: autonomy, complexity, coherence, congruence and exclusivity. Implementation of organizational activities depends on the relationships between and within organizations. One way to explain this relationship and its effect on implementation of organizational activities is the principal-agent theory. This theory holds that shirking is likely to occur when there is some disagreement between policy makers and the bureaucracy. Civilian political leaders (principals) delegate authority to the bureaucracy (agent) with the expectation that the agent does not move quickly enough to reflect the policy preferences of the principal, the committee members could show their displeasure by cutting the funding of the organization. Leaders (the principals), through powers of appointment and the purse are in position to influence bureaucratic outputs. Guy (2004) quoting Calvert et al. (1989), Moe, (1985) and Wood Waterman, (1991) found that politicians wield considerable power in affecting bureaucratic outputs via the power of appointment. Calvert et al. posits that the chief executive's power of appointment and the threat of legislative sanctions influence bureaucratic output. Moreover, they assert that there is a boundary in which agents are allowed to exercise various amounts of discretion. The amount of discretion allowed to agents is determined by the importance of a policy-the more important a policy, the lesser the amount of discretion that will be allowed to agents and conversely, the less important a policy to a principal, the more discretion that will be accorded to the agent.

2.4 The legal and Regulatory Framework of Public procurement

The legal framework for public procurement includes; Public Procurement and Disposal Act, 2005, Public Procurement and Disposal Regulations 2006, Public Procurement and Disposal Regulations (Public Private Partnerships) 2009, Supplies Practitioners Management Act 2007 and National case-law.

Adherence to public procurement procedures is critical to ensure that public funds are used in the best possible way. There must therefore be a sound enforcement mechanism that ensures procuring entities comply with the regulations. From the Act, the Public Procurement Oversight Authority (PPOA) has the functions include: Ensuring that the procurement procedures established under the Act and the subsequent regulations are complied with; Monitoring and reporting on the overall functioning of the public procurement system;

Assisting in the implementation and operation of the public procurement system by amongst others preparing and distributing manuals and standard documents to be used in connection with procurement by public entities; providing technical advice and assistance to procuring entities; and developing, promoting and supporting the training and professional development of persons involved in procurement.

Decisions of the national courts provide interpretation of the requirements of the Act and regulations and can establish precedents that must be observed. By its very nature, case-law, is constantly evolving and have significant effects. The legal framework is constantly evolving through new or amended legislation. All procuring entities should therefore ensure that their procurement staff constantly keeps abreast of developments in the legal framework and further equipped to meet their legal obligations.

The mandate of PPOA established in the Act often overlaps with other government agencies, for example Kenya National Audit Office (KNAO), Kenya Anti-Corruption Commission (KACC), the Office of the Ombudsman and the National Anti-Corruption Steering Committee, established by several Acts of parliament including the Anti-Corruption and Economic Crimes Act, the Public Officers Ethics Act (2003), and the Government Financial Management Act (2004). The agencies were all established as implementing authorities in the fight against graft. Clear legal frameworks should therefore be established that sets clear boundaries and frameworks for collaboration between the different agencies. The legal framework for public procurement should be harmonized with other Acts to ensure ready adoption and effective implementation of the public procurement regulations. Specifically areas in the public procurement legal framework that appear to contradict sections of the State Corporations Act and The Architects and Quantity Surveyors Act Chapter 525 (Revised Edition 1978) should be harmonized for easier interpretation and implementation by the procurement entities and suppliers.

The Public Procurement and Disposal Act (PPDA), effective as of 1st January 2007, applies to all procurement of goods, works and services, as well as the disposal of assets by public entities. Public entities are those entities that procure goods, services or works utilising public funds. The definition of public funds includes donor funds in so far as donor stipulations do not supersede the Act. If they do, the donor terms and conditions take precedence. As such,

the definition includes the central and local governments, courts, commissions, state corporations, cooperatives, and educational institutions such as colleges, schools and universities. This Act does not directly seek to regulate the private sector, though it does regulate its interaction with public entities.

The PPDA was established in order to: Maximise economy and efficiency, Promote competition and ensure that competitors are treated fairly, Promote the integrity and fairness of procurement and disposal procedures, Increase transparency and accountability in those procedures, Increase public confidence in those procedures, Facilitate the promotion of local industry and economic development. In order to achieve these objectives, the Act establishes procurement and disposal procedures. It also sets up the necessary structures to ensure that the procedures are followed and to provide oversight and compliance (Kimalu, 2002).

Table 2.1 Legal Framework for Public Procurement

LEGAL FRAMEWORK	DETAILS
Public Procurement and Disposal Act 2005	Establish procedures to procurement and the disposal of unserviceable, obsolete or surplus stores and equipment by public entities.
Public Procurement and Disposal Act 2006	To provide for the basic principle and procedures to be applied in ,and regulate the public procurement of goods, public works, consultant services, and other services and for the institutions responsible for those matters.
Public Procurement and Disposal Act 2009	It provides guidance to public officials responsible for public procurement, auditors and other financial management specialists in their everyday business relating to public procurement.
Supplies Practitioners Management Act	An act of the parliament to make provision for the training, registration and licensing of supplies practitioners; to regulate their practice and for connected purposes.

2.5 Summary of Literature Review

In view of the above literature review, it is evident that Procurement practices have been in practice for a long time in the world, most especially the developed world. Public procurement dates back to the early civilizations of Mesopotamia and Greece. Public procurement has become not only an important economic tool but also a very essential tool that could be used to influence certain public policy goals or agendas as well. Pitzer and Thai, (2009) accounts that, the Organization for Economic Cooperation and Development reported that the total expenditure for 24 industrialized nations in 2006 ranged from 29.8 % to 55.9% of GDP, but their work only concentrated on the developed countries.

In Africa, procurement practices had been in existence even though there are no documentary proves of how the procurement practices were; this is because chiefs and kingdoms used to purchase goods from others. Thai, (2001), outlined two broad challenges that are faced by procurement practitioners in Africa: external factors and internal factors. Since the advent of the procurement practices in Kenya especially public procurement, there has been a number of issues outlined as the main areas of challenges bedeviling institutions in their practice of procurement.

The literature review outlines these challenges ranging from ethical issues, moral and sustainability issues, training and education for qualified and unqualified persons who are into the area of procurement. With little research done on public procurement procedures in Kenya, this research tried to find the challenges of compliance with procurement procedures, extent of compliance with public procurement procedures and effects of compliance with public procurement procedures and supply chain performance of state corporations in Kenya.

2.6 Conceptual Framework

Dependent Variable

Independent Variable

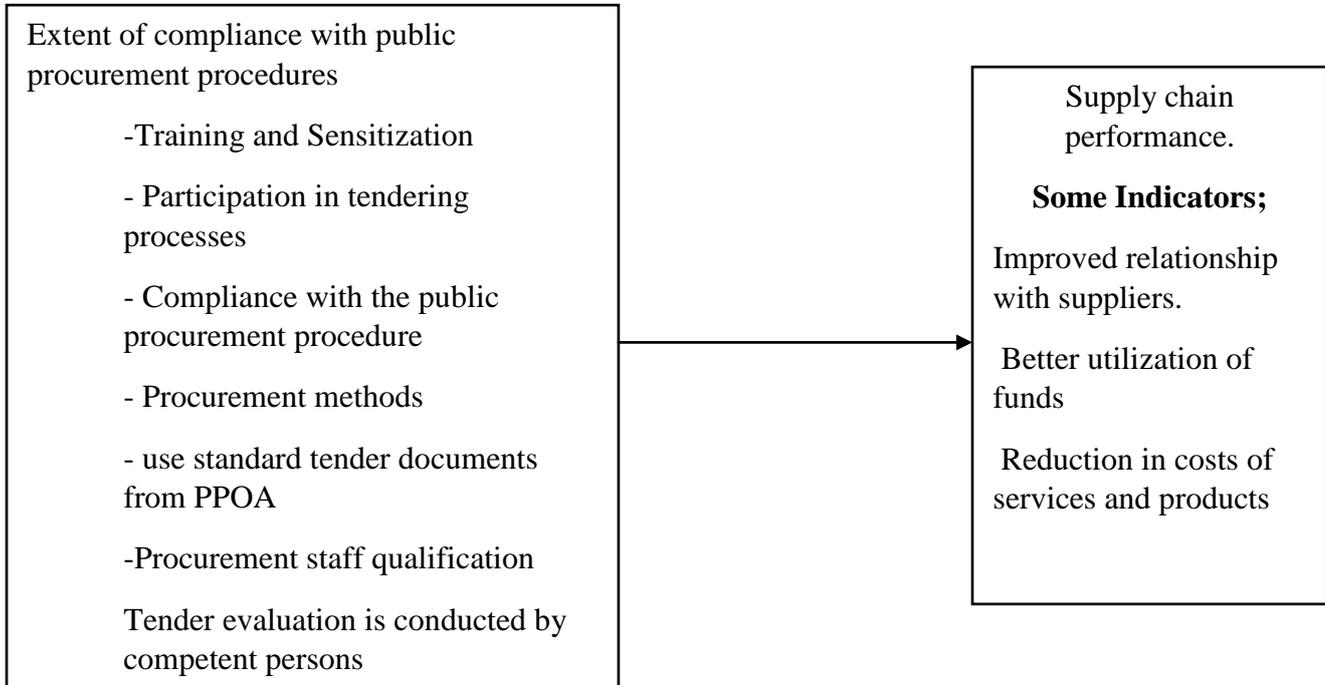


Fig 2.1 Conceptual Framework on PPP in state corporations and supply chain performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section deals with the research design, target population, sample and sampling procedures, data collection instruments ,validity and reliability of the instruments, procedure for data collection , and data analysis techniques.

3.2 Research Design

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence economically (Cooper and Schindler, 2006). This study was conducted through a descriptive survey research design. According to Wallen, (1993) a descriptive survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. The design investigates the extent, challenges and the effect of compliance with public procurement rules and supply chain performance in state corporations. This study is a descriptive survey as it is set out to describe and interpret a situation (Etemesi, 2010). According to Best and Kahn (1993), descriptive research is also concerned with: conditions or relationships that exist, practices that prevail, beliefs, point of view, or attitudes that are held by people, processes that are going on, effects that are being felt, or trends that are developing. It is concerned with what exists and related to preceding event that has influenced or affected a present condition or event.

3.3 Target Population

A population refers to an entire group of individuals, events or objects having a common observable characteristic Mugenda and Mugenda(2003).The population of the study comprised of all registered state corporations in Kenya which are 187 (Mars Group Kenya, 2013).

3.4 Sampling

According to Best and Kaln (1998), the ideal sample should be large number to serve as adequate representatives of the population and small enough to be selected economically, that is in terms of subject availability. According to Mugenda and Mugenda (2003), 10 percent of the target population can be picked as a sample size.In this study the sample population included 56 parastatals.The study employed stratified random as a sampling technique. According to Gay (1996), simple random sampling is a way of selecting a sample in such a

way that the individual in the defined population has an equal and independent chance of being selected for the sample.

3.5 Data Collection

As advanced by Warwick et al (1975), methods chosen for data collection should provide high accuracy and convenience of obtaining data from the respondents. In this study, the researcher used closed-ended and open-ended questions. The questionnaire, which contains both closed and open ended questions, formed the instrument for data collection. The questionnaire was divided in to three sections. Section A captured the background information of the respondents and state corporations. Section B captured the extent of compliance with public procurement procedures in Kenyan State Corporation. Section C concerned the challenges of compliance with the Public Procurement Procedures in state corporations in Kenya and Section D concerned the effect of compliance with Public Procurement Procedures on supply chain performance of State Corporation in Kenya.

3.6 Data Analysis

According to Mugenda and Mugenda (1999), data analysis is the process of bringing order, structure and meaning to the mass of information collected. The process involves organizing data in a meaningful pattern, editing, coding and thematic presentations. The study employed qualitative methods of data analysis. Data gathered from all different instruments was carefully and thoroughly checked to ensure that only complete, accurate and relevant data was finally coded. The researcher attained this by counter-checking all the documented responses from all the instruments so as to detect and eliminate any inconsistencies and irrelevances in the documented responses. The responses were further edited to eliminate incomplete contents and errors. All specific issues emanating from different data collection instruments was grouped and classified according to their categories of relationships in line with the study objectives and research questions.

Demographics of the respondents and the firms were analysed using frequencies and averages. The extent of compliance with the public procurement procedures, challenges of compliance with the public procurement procedures and effects of compliance with the public procurements procedures were analysed using means and standard deviation.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter covers data analysis, presentation and interpretation of the general information of the respondents which includes the study of the respondents' demographics. It also tackles the research questions where each of the questions is answered by the analysis of the obtained data and presented through tables. The public procurement procedures and supply chain performance of state corporations in Kenya is evaluated by the research findings obtained where the mean responses is obtained with the standard deviation of the responses given. The chapter also gives the summary of the analysis.

In the study, the researcher collected data from 93% (n=52) of the sampled population. This is good as compared to the 75 % recommended by Mugenda (2009) in her description of the required sample, only 7% (n=4) were missing, Table 4.1 below illustrates this information.

Table 4.1 Response Rate

	Frequency	Percent
Collected questionnaires	52	93
Missing Questionnaires	4	7
Total	56	100

4.2 Demographic Data

4.2.1 Gender of the Respondents

The result in respect to gender, respondent were asked about their gender and analysis was done using frequencies as shown in Table 4.2.1 indicate that 57.7% (n=30) of the respondents were male while 42.3% (n=22) were female, this indicates that majority of the parastatal staffs were male.

Table 4.2.1 Gender

	Frequency	Percent
Valid Male	30	57.7
Female	22	42.3
Total	52	100.0

The skewed result in favour of male may be attributed to the random sampling method used for the selection of the respondents. Nevertheless, it should also be noted that, across all the sections or departments of which the sample were taken, were heavily male dominated.

4.2.2 Age of the Respondents

The researcher sought to find out the age of the respondents. The analysis in Table 4.2.2 shows that majority 38.5% (n=20) of the respondents were aged between 36-45 years, 26.9% (n=14) were 25 years and less, 19.2% (n=10) were aged between 26-35 years, while minority 15.4% (n=8) were in the range of 46-55 years, this indicates that most respondents were young and their age lies between 36-45 years. Table 4.2.2 illustrates this information.

Table 4.2.2 Age

		Frequency	Percent
Valid	25 years or less	14	26.9
	26-35 years	10	19.2
	36-45 years	20	38.5
	46-55 years	8	15.4
	Total	52	100.0

4.2.3 Education Level of the Respondents

Analysis in Table 4.2.3 shows that majority 55.8% (n=29) of the respondents had an undergraduate degree, 23.1% (n=12) had diploma, 21.2% (n=11) had postgraduate degrees, this clearly indicates that most parastatals had staffs who had undergraduate degrees and minority of them had employees with undergraduate degrees.

Table 4.2.3 Education Level

		Frequency	Percent
Valid	Diploma	12	23.1
	Undergraduate degree	29	55.8
	Postgraduate degree	11	21.2
	Total	52	100.0

4.2.4 Years of the Parastatal Existence

The researcher sought to find out the number of years the parastatals were in existence. majority 32.7% (n=17) had 16-25 years in operation, 28.8% (n=15) had below 15 years of operation, 15.4% (n=8) had 26-35 years, 13.5% (n=7) had 36-45 years of existence, while 9.6% (n=5) had 46-55 years of existence, this indicates that majority of the sampled

parastatals had few years of existence which were 16-25 years. Analysis in Table 4.2.4 illustrates this.

Table 4.2.4 Parastatal Existence

		Frequency	Percent
Valid	Below 15 years	15	28.8
	16-25 years	17	32.7
	26-35 years	8	15.4
	36-45 years	7	13.5
	46-55 years	5	9.6
	Total	52	100.0

4.2.6 Respondents Years in Parastatal

Majority of the interviewed respondents 32.7% (n=17) had 2-5 years in the parastatal, 23.1% (n=12) had less than 2 years and over 10 years in the parastatal. While only 21.2% (n=11) had 6-10 years working in the parastatal, this indicates that majority of the respondents had not worked in the parastatals for a very long time. Analysis in Table 4.2.5 shows this.

Table 4.2.5 Years in Parastatal

		Frequency	Percent
Valid	Less than 2 years	12	23.1
	2-5 years	17	32.7
	6-10 years	11	21.2
	Over 10 years	12	23.1
	Total	52	100.0

4.3 Extent of Compliance to Procurement Procedure.

The respondents were asked to state the extent to which they agreed with given statements on compliance to procurement rules on a five point Likert scale of 1-5 where 1 is strong extent of agreement, 2 agree, 3-neutral, 4-disagree and 5- for strongly disagree. The study results in Table 4.3 indicate the extent of agreement by the respondents on the compliance with public procurement procedures on a Likert scale. The findings in percentage are in Table 4.3.1. 71% (n=39), 69% (n=36), 65%, 65% (n=34), 63% (n=34) and 62% (n=32) acknowledged effective and competent persons conduct tender evaluation, appropriate media is used to advertise procurement opportunities, entities use standard tender documents from PPOA, procurement entities apply appropriate procurement methods and that public entities comply with the

public procurement procedure respectively. Only 60% (n=31), 56% (n=29) and 52% (n=27) reported agreement with procurement staff are qualified and experienced to handle procurement process, there is training and sensitization of officers on procurement act 2005 and 2006 and officers participation in tendering processes.

Table 4.3 Compliance to Procurement Procedure

Statement	Strongly agree	agree	neutral	Disagree	Strongly disagree	Mean	SD
Training and Sensitization of officers on procurement act 2005 and 2006	33	23	37	8		2.19	.991
Officers participation in tendering processes	23	29	27	14	8	2.54	1.212
Public entities comply with the public procurement procedure	19	42	39			2.19	.742
Procurement entities apply appropriate procurement methods	27	37	37			2.10	.798
Entities use standard tender documents from PPOA	29	37	6	14	15	2.50	1.435
Procurement staff are qualified and experienced to handle procurement process	40	19	15	17	8	2.33	1.368
Procurement officers make informed decisions	14	52	29	6		2.27	.770
Tender evaluation is conducted by competent persons	25	44	15	10	6	2.27	1.122
Procurement opportunities are advertised using appropriate medium	14	52	35			2.21	.667
There is effective monitoring and auditing	27	44	21	8		2.10	.891
						2.27	

Findings in Table 4.3 indicate an overall mean of 2.27 indicating that there was no good compliance or bad compliance to procurement rules. Every variable had a mean value which lied between 2.1-3.0 indicating that most staff were neutral on the compliance issue

4.4 Challenges of Compliance with Procurement Procedures

Table 4.4 Challenges of Compliance with Procurement Procedures

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	SD
Prices of public procurement of works goods and services are too high	4	37	33	27		2.83	.879
New suppliers shy away thus no innovation	27	40	21	12		2.17	.964
There are weaknesses in public procurement system	19	46	19	15		2.31	.961
There are tendencies of unethical procurement practices	21	56	12	12		2.13	.886
General perception that public procurement is too long	14	44	21	21		2.50	.980
Public procurement process is too expensive	19	48	33			2.13	.715
There are delays in the procurement process	23	37	23	10	8	2.42	1.177
Procurement practitioners are not held accountable for their actions	33	23	23	21		2.33	1.150
There is no transparency in the procurement	23	42	31	4		2.15	.826

Every procurement procedures faces some sort of challenges and how they affect the operation of entities. The study intends to identify the challenges confronting stakeholders in the implementation of the Public Procurement Act and its effect on their performance.

The respondents were asked to state the extent to which they are agreed with the given statements on challenges of compliance with public procurement procedures on a five point likert scale.

The findings in percentages are given in Table 4.4 above.77% (n=40),67% (n=35),65% (n=34) ,60% (n=31) and 58% (n=31) greatly agreed that there are tendencies of unethical practices, new suppliers shy away from innovations, public procurement is too expensive, there are weaknesses in the procurement system, there is no transparency in the procurement, there are delays in the procurement process and there is a perception that public procurement is too long. Only 56% (n=29) and 40% (n=21) reported agreement that practitioners are not held accountable for their actions and prices of public procurement works, goods and services are too high respectively. Table 4.4.1 above illustrates this information.

Findings in table 4.4.1 indicate an overall mean of 2.33 the respondents were neutral on the challenges they face on compliance of public procurement procedures. Every variable had a mean value which lied between 2.1-3.0 indicating that most staff were neutral on this challenges.

4.5 Effects of Public Procurement Procedures on Supply Chain Performance

The respondents were asked to state the extent to which they agreed with given statements on the effects of public procurement on supply chain performance on a five point Likert scale. The study results in table 4.5.1 indicate the extent of agreement by the respondents on the effects of public procurement on supply chain performance on a Likert scale of 1-5 where 1 is no extent, 2-little extent, 3-moderate extent, 4-large extent and 5- for very large extent. The study result is based on mean values where any mean value between 0-1 is greater extent of agreement, mean between 1.1-2.0 is agreement, mean between 2.1-3.0 is neutral, mean between 3.1-4.0 is disagree and mean between 4.1-5.0 is great extent of disagreement.

Findings in table 4.5.1 indicate an overall mean of 3.10 indicating a large extent of agreement that supply chain performance has been affected by public procurement. The statement that there is improved relationship with supplier and there is better utilization of funds had a mean of 3.19 and 3.23 respectively for large extent of agreement while the remaining variables had a mean which lied between 2.1-3.0 for neutral.

Table 4.5.1 Effects of Public procurement on Supply Chain Performance

Statement	No extent	Little extent	Moderate extent	Large extent	Very large extent	Mean	SD
Improvement in quality of products	35	27		19	19	2.62	1.586
Improved relationship with supplier	14	25	12	29	21	3.19	1.387
Better utilization of funds	19	8	14	50	10	3.23	1.308
Reduction in costs of services and products	19	17	23	31	10	2.94	1.290
Increase in organisation overall profits	8	33	29	19	12	2.94	1.145
Increased efficiency in procurement	8	29	27	31	6	2.98	1.075
Effective contract management and reporting	21	12	37	17	14	2.90	1.302
						3.10	

4.10 Discussion of the Findings

This section gives the researcher's discussion on the study findings obtained where the findings are compared with the results of previous studies which were done by different scholars from different institutions.

4.10.1 Extent of Compliance with Public Procurement Procedures

This was the first objective of the study which was to find how the respondents complied with the public procurement rules. The findings were that there was compliance to the public procurement procedures which was in line with (PPOA, 2005) which indicates that Adherence to public procurement procedures is critical to ensure that public funds are used in the best possible way. There must therefore be a sound enforcement mechanism that ensures procuring entities comply with the regulations. From the Act, the Public Procurement Oversight Authority (PPOA) has the functions include: Ensuring that the procurement procedures established under the Act and the subsequent regulations are complied with; Monitoring and reporting on the overall functioning of the public procurement system;

Assisting in the implementation and operation of the public procurement system by amongst others preparing and distributing manuals and standard documents to be used in connection with procurement by public entities; providing technical advice and assistance to procuring entities; and developing, promoting and supporting the training and professional development of persons involved in procurement. From the model formulation the findings showed that the supply chain performance is significantly influenced by the extent of compliance with the public procurement procedures.

4.10.2 Challenges of Compliance with the Public Procurement Procedures.

This was the second objective of the study which was to find the challenges facing compliance to public procurement. The findings were that majority of the respondents agreed that procurement practitioners are not held accountable for their actions this was in line with past study by Arrow smith, (2003) which indicated that public procurement practitioners face another challenge, that is, how to comply with their government's procurement regulations and social and economic procurement goals without violating regional and/or international trade agreements. For example, how to comply with national economic policies (in nurturing domestic firms), without dealing unfairly with foreign firms as provided in regional trade agreements and/or the World Trade Organization (WTO) agreements is not easy, which requires a careful study of trade agreements in order to take advantages of special provisions. The WTO Agreement on Government Procurement (GPA) Article XVI provides: "Entities shall not, in the qualification and selection of suppliers, products or services, or in the evaluation of tenders and award.

The findings also showed that prices of public procurement goods and services is too high this is supported by studies by Thai,(2001) which shows that the procurement management requirements normally include quality, timeliness, cost (more than just the price), minimizing business, financial and technical risks, maximizing competition, and maintaining integrity. The procurement policy requirements normally include economic goals (preferring domestic or local firms), environment protection or green procurement (promoting the use of recycled goods), social goals (assisting minority and woman-owned business concerns), and international trade agreements. It is very difficult for policy makers and public procurement practitioners to make an optimal decision, as there are always trade-offs among these goal.

4.10.3 Effects of Compliance to Public Procurement

This was the third study objective which was to investigate the effects of compliance with the public procurement rules. The researcher found out that compliance to public procurement had effects on the supply chain performance. This was in line with the study by Wanyama, (2010) which shows that the introduction of the legal and regulatory procurement framework; the establishment of the PPOA as an oversight body; the development of a framework for contract administration and the new appeals mechanism were among those aspects of the procurement system rated as having been positively affected by the Regulations. In contrast, the existing institutional development capacity in procuring entities and functioning of the procurement market were assessed as being among the weakest aspects of the system. The report noted that although procedures supporting systematic procurement planning have been established, research showed that these are far from always being complied with.

It was found out, for example, that there was a low share of procurements that were done through open tendering. This indicated that most of the procurements were done on an ad hoc basis, by quotations and direct procurements, thus suggesting a lack of procurement planning in most of the surveyed government departments. One of the strong points about the Regulations according to the report by the PPOA was that procurement decision making had been fully delegated. The Regulation's framework provides for a fully decentralized procurement process, leaving the full responsibility of undertaking procurements to the Tender Committees and the procurement unit at the level of the procuring entity. Findings from the regression model show that the effects of compliance to public procurement had a significant influence on the supply chain performance of the state corporations in Kenya.

CHAPTER FIVE

DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives the summary of the study findings, discussions of the research findings where the findings are compared with the findings of other relevant studies which were

earlier carried out, conclusions that were drawn by the researcher according to the findings of the study and the recommendations made by the researcher for the status improvement. The study further illustrates the recommendations that can be adopted by the relevant authority to ensure effectiveness of the procurement procedures on Kenyan parastatals. The researcher also recommends the study for further studies.

5.2 Summary of the Study Findings

The study was conducted in parastatals in Kenya to evaluate the public procurement procedures and supply chain performance of state corporations in Kenya. The specific objectives of the study included; establishing the extent of compliance with public procurement procedures in Kenya by state corporations; establishing the challenges of compliance with the public procurement procedures in Kenyan state corporations and to determine the effect of compliance with public procurement procedures in Kenyan state corporations.

The researcher used descriptive statistics where frequencies and percentage of responses were obtained. The measure of dispersion such as mean and standard deviation were also used where the researcher obtained mean responses and standard deviations to indicate how the response varies from the mean.

On the extent of compliance to procurement procedure, the findings were that most parastatals comply with the procurement procedures. This was due to the findings that indicated that officers are trained and sensitized on the public procurement act 2005 and regulations 2006, officers participate in the tendering processes, public entities comply with the public procurement procedures, procurement staff are qualified and experienced to handle procurement process and that there is effective monitoring and auditing of procurement activities by oversight bodies.

The study findings also indicated that, compliance with the public procurement procedures comes with its own challenges, State corporations faces the following challenges in complying with the procurement procedures, high costs of public procurement works, goods and services, new suppliers shy away leading to lack of innovation, the state corporations

experience tendencies of unethical procurement practices and that in the procurement system there is no transparency in the procurement process.

Concerning the effects of public procurement procedures on supply chain performance, the findings showed that there is improvement in the quality of products and services; there is improved relationship with suppliers, compliance to these procedures leads to reduction in costs of services and products. The findings indicated that when the procurement procedures are complied to they lead to effective contract management and reporting.

5.3 Conclusion

With reference to the study findings obtained under the analysis of the collected data, the researcher makes conclusions with respect to each research question as the data collected was based.

From the above findings it was concluded that officers participate in tendering processes, public entities comply with the public procurement procedures, procurement entities applies appropriate procurement methods for appropriate procurement methods for appropriate threshold in procurement and that procurement staff are qualified and experienced to handle procurement process were found to influence the supply chain performance in parastatals.

The study acknowledges the importance of compliance to Public Procurement Procedures and regulations however; a lot needs to be done to improve ethical conduct, knowledge of employees on procurement regulations and training because failure to comply with the regulations parastatal tendering committees and suppliers can lead to major losses for the government funds. The suppliers to the parastatals also induce unethical practices like corrupting the parastatal tendering committee members and therefore strong enforcements of laws should be implemented. The other factors discovered in field included; improve the effects of compliance on quality of goods and services. The following new valuables found in the course of collecting data: Improving the challenges facing the enforcement of public procurement regulations in state corporation. Enhance transparency and accountability. Improve the challenges facing e-procurement in the parastatals.

5.4 Recommendation

As a result of these study findings, the researcher put forward the following recommendations: It is important to offer ethics education to parastatal tendering committee Members in order to ensure they serve in ultimate objectivity, accountability, and non-discrimination. The organization code of ethics should be well put in place and adhered to; in Order to guide the daily operations of parastatal tendering committee and to provide them with guiding principles. The parastatals should train tendering committee, suppliers / bidders on the proper procurement procedures and practices so as to create consistency and to reduce cost. The PPDA should consistently evaluate and audit performance of parastatal tendering Committees so as to ensure purchases made are in compliance with the law of procurement.

On the extent of compliance with public procurement procedures, Building the capacity of service providers has been identified as one of the success factors of public procurement reforms. It is important that Public Procurement Authority organizes training sections for contractors, surveyors, architects, consultants and suppliers in the private sector on tendering process, and the Appeals, Complaints and Dispute Mechanism. Audit Service, the Judiciary, and other oversight bodies should be trained on the procurement process and audit to appreciate the public procurement issues to enforce accountability to improve compliance.

On the challenges the Public Procurement Act should make provision for the establishment of structures such as Procurement Units, Entity Tender Committees (ETCs) to manage procurement activities in all parastatals and to engage persons proficient in procurement. Out of the two-hundred and eighty seven (187) state corporations in Kenya only a few have procurement departments with few of them having legally constituted Entity Tender Committees (ETCs). The study, therefore, recommends the establishment of permanent Procurement Units and Entity Tender Committees (ETCs) managed by qualified procurement experts to ensure an improved overall procurement and supply chain performance and compliance with the Public Procurement Act, 2005.

The study recommends that Delays in the procurement process can be curtailed by giving procurement planning the needed attention by management of parastatals. Procurement practitioners must take cognizance of the amount of time and resources required so they can begin early enough and allow sufficient time to complete the procurement process.

State corporations must ensure that suitable candidates are employed on the basis of merit and placed in their relevant qualifications, skills, and experience with their roles and responsibilities clearly defined to avoid role conflicts with other professions and departments. Strategies must also be put in place to retain them. Public procurement cannot be perceived as a mere ‘clerical routine,’ activity. For an entity to derive the full benefit of the procurement reform, procurement function must be placed in strategic management level.

5.5 Limitations of the Study

Limited time period and resources such as funds are limiting factors to the research. In spite of these constraints, the results of this research are thought provoking and can be regarded as a basis for more detailed and analytical work on the topic in future.

The research covers the state corporations in Kenya. However, the analysis and findings relates to other entities in the public and private sectors. Selecting only state corporations in Kenya may not be a fair reflection or representation of public entities across Kenya.

5.6 Recommendations for Further Research

Further research should be undertaken on the following areas: effects of compliance with public procurement, challenges of compliance with public procurement and extent of compliance with public procurement procedures in Kenya since the study findings on each and every research question indicate just a mere extent of agreement to public procurement procedural rules and supply chain performance of state corporations in Kenya.

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APPENDICES

Appendix 1: Questionnaire

This research is meant for academic purpose. You are kindly requested to provide answers to these questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Please tick where appropriate or fill in the required information on the spaces provided.

SECTION A: SOCIO-DEMOGRAPHICS

1. Name of the state Corporation.....

2. Gender of the respondent,

Male []

Female []

3. Indicate your Age group

25 years or less []

26-35 years []

36-45 years []

46-55 years []

With 55 years and above []

4. Education Level

Diploma..... []

Undergraduate Degree..... []

Postgraduate Degree..... []

5. How many years has the Parastatal been in existence?

Below 15 years []

16-25 years

26-35 years

36-45 years

46-55 years

More than 55 years

6. Which areas does the parastatal focus

on.....
.....

7. How long have you worked in this Parastatal?

a) Less than 2 years

b) 2-5 years

c) 6-10 years

d) Over 10 years

SECTION B: EXTENT OF COMPLIANCE TO PROCUREMENT PROCEDURE

8. On a scale provided below, tick to indicate the extent to which you agree with the following statements as pertaining to Procurement Procedures in the organisation.

Description		Response				
		1	2	3	4	5
		Strongly agree	Agree	Neutral	disagree	Strongly disagree
1	Officers are trained and sensitized on the public procurement Act 2005 and regulation 2006.					

2	Officers participate in the tendering processes					
3	Public entities comply with the public procurement procedures.					
4	Procurement Entities applies appropriate procurement methods for appropriate thresholds in procurement					
5	Entities use Standard Tender Documents from PPOA in procurement					
6	Procurement staff are qualified and experienced to handle Procurement process					
7	Procurement officers and committee members make informed decisions regarding procurement operations					
8	Tender Evaluation is conducted by competent persons.					
9	Procurement opportunities are advertised using the appropriate medium.					
10	There is effective monitoring and auditing of procurement activities by oversight bodies					

**SECTION C: CHALLENGES OF COMPLIANCE WITH THE PUBLIC
PROCUREMENT PROCUDURES**

9. On a scale provided below, tick to indicate the extent to which you agree with the following statements regarding challenges of compliance with Public Procurement Procedures.

Description		Response				
		1 Strongly agree	2 agree	3 neutral	4 disagree	5 Strongly disagree
1	Cost/prices of public procurement of works goods and services are too high.					
2	New suppliers shy away thus no innovation					
3	There are weaknesses in public procurement system					
4	There are tendencies of unethical procurement practices.					
5	There is a general perception that Public Procurement process is too long.					
6	The Public Procurement process is too expensive					
7	There are delays in the procurement process					
8	Procurement staff are qualified and experienced to handle Procurement					

	process					
9	Procurement practitioners are not held accountable for their actions.					
10	There is no transparency in the procurement process.					

SECTION D: EFFECTS OF PUBLIC PROCUREMENT PROCEDURES ON SUPPLY CHAIN PERFORMANCE

10. Indicate the extent to which compliance with Public Procurement Procedures has affected performance of supply chain in the organisation. Indicate the extent for each of the following indicators of supply chain performance using the scale provided.

Description		Response				
		1 No extent	2 Little extent	3 Moderate extent	4 Large extent	5 Very large extent
1	Improvement in quality of products/ service					
2	Improved relationship with supplier					
3	Better utilization of funds					
4	Reduction in costs of services and products					
5	Increase in organisation overall profits.					
6	Increased efficiency in procurement					
7	Effective contract management and reporting					

Thank You.

Appendix II: List of Parastatals

1. Industrial Development Bank (IDB) Capital Ltd;
2. Kenya Investment Authority (KIA);
3. Kenya Industrial Research and Development Institute (KIRDI);
4. Kenya Industrial Estates (KIE);
5. Industrial and Commercial Development Corporation (ICDC);
6. Kenya Bureau of Standards (KEBS);
7. Export Promotion Council (EPC);
8. Export Processing Zones Authority (EPZA);
9. Kenya Industrial Property Institute (KIPI);
10. Numerical Machining Complex (NMC);
11. Kenya National Trading Corporation (KNTC);
12. Kenya Wines Agencies Ltd (KWAL);
13. East African Portland Cement Company Limited (EAPCC).
14. Kenya Tourist Development Corporation (KTDC);
15. Kenya Utalii College (KUC);
16. Kenya Tourist Board (KTB);
17. Catering and Tourism Development Levy Trustees (CTDLT);
18. Bomas of Kenya;
19. Kenya Wildlife Service (KWS);
20. Kenyatta International Conference Centre (KICC);
21. Kenya Safaris Lodges and Hotels;
22. Tourism Trust Fund (TTF);
23. National Social Security Fund (NSSF);
24. Kenya National Library Services (KNLS);
25. Sports Stadia Management Board (SSMB);
26. National Council for Persons with Disability (NCPD);
27. National Commission for Gender and Development (NCGD).
28. Youth Enterprise Development Fund.

29. Kenya Ports Authority
30. Kenya Revenue Authority
31. Kenya Bureau of Standards
32. Kenya Tourist Board
33. Retirement Benefits Authority
34. Teachers Service Commission
35. Telkom Kenya
36. Kenya Wildlife Services
37. Higher Education Loans Board
38. Kenya Airports Authority
39. Kenya Broadcasting Corporation
40. Kenya Electricity Generating Company Limited
41. Kenya Institute of Administration
42. Kenya Anti corruption commission
43. Capital Markets Authority
44. Communication Commission of Kenya
45. Kenya Pipeline Company
46. East African Portland Cement Co.
47. Horticultural Crops Development Authority
48. Kenya Co-operative Creameries Limited
49. National Land Commission
50. Kenya ICT Board
51. Pharmacy and Poison Board of Kenya
52. Energy Regulatory Commission
53. Kenya Urban Road Authority
54. Kenya Roads Board
55. Kenya Meat Commission
56. National Transport and Safety Authority